



Federal Financial Analytics, Inc.

## **WHILE BASEL WANES, CHARTER CHOICE WAXES, PETROU SAYS**

“Time stands still for no rule. Even as we continue to debate Basel II, it’s gone final all over the world. Similarly, even as we debate whether “banking” and “commerce” may come together, they have in an array of potent charters. The “functional” regulatory framework...is increasingly dysfunctional, providing numerous charter choices – put politely – or, less so, regulatory-arbitrage opportunities.”

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WASHINGTON, D.C. – Speaking today before the general counsel of the nation’s largest banks, Federal Financial Analytics managing partner Karen Shaw Petrou outlined charter choices forced by the growing disparity between the rules governing U.S. banks and those of their competitors. For years, this has been a “nuisance,” Petrou said, but now it forces critical strategic decisions.

Much – but not all – of this pressure results from the very different path the U.S. has taken on the new Basel II risk-based capital rules. “Legacy charters can be as costly as legacy computers,” Petrou said, “especially as the different capital rules wreak their will starting right about now.” The talk focused on the most important of these differences: the various conditions and uncertainties in the new notice of proposed rulemaking, along with planned retention of the leverage requirement.

However, Petrou did not focus solely on the Basel rules. She noted an array of other standards – the new guidance on non-traditional mortgages, for example – that apply differently to banks than their non-bank competition. She also pointed to emerging charter developments like the proposed optional federal charter for insurance companies and the SEC’s recent enforcement action against an insurer.

The full text of the speech is attached.

*Federal Financial Analytics, Inc. has for the past twenty years counseled large financial institutions and even their regulators on major legislative, regulatory and policy issues that pose strategic risk. It does not lobby on behalf of clients, but advises them on appropriate responses in light of identified challenges, working on an array of GSE, Basel II, and acquisition-value issues. The firm publishes numerous information and analytical services, including Financial Services Management and GSE Activity Report.*

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